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Message Text

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PAGE 01 CAIRO 08912 01 OF 02 271022Z
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
----------271032Z 077389 /15
R 270928Z MAY 77
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 5501
INFO AMCONSUL ALEXANDRIA
AMEMBASSY DAMASCUS
AMEMBASSY JIDDA
AMEMBASSY KUWAIT

C O N F I D E N T I A L SECTION 1 OF 2 CAIRO 8912

EXDIS

E.O. 11652: GDS
TAGS: EINV, EG
SUBJECT: FORD PROJECT: GOE PRESENTS "COUNTER OFFER"

REF: (A) CAIRO 8483 (NOTAL, (B) ALEXANDRIA 400 (NOTAL)

1. IN SHIFTS OF ANTICIPATED SEQUENCE OF EVENTS PREDUCITED IN REFS A AND B, OUROUSSOFF MET MAY 26 WITH GAMAL EL NAZIR TO RECEIVE A LETTER FROM GOE (SIGNED BY NAZIR IN HIS CAPACITY AS DEPUTY CHAIRMAN OF INVESTMENTS AUTHORITY) ON THE SUBJECT OF FORD'S PROPOSED INVESTMENT. TEXT OF LETTER IS AS FOLLOWS:

BEGIN QUOTE.

DEAR MR. WILLIAMS,

I AM PLEASED TO INFORM YOU THAT ON MARCH 27TH, THE GENERAL AUTHORITY FOR ARAB AND FOREIGN INVESTMENT AND THE FREE ZONES OF THE GOVERNMENT OF EGYPT HAS APPROVED YOUR PROPOSED PROJECT TO MANUFACTURE DIESEL ENGINES AND TRUCKS IN EGYPT, AS PER THE FOLLOWING:
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- THE PROGRAM BROCHURE ENTITLED "EGYPTIAN ENGINE MANUFACTURE AND TRUCK ASSEMBLY PROGRAM" AND DATED 1977.

- THE LETTER DATED MARCH 24TH, 1977 TO DR. ABDEL RAZZAK ABDEL MEGUID AMPLIFYING AND ADDING TO THE PROGRAM BROCHURE AND LISTING CERTAIN CHANGES AND OPEN POINTS.

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- A MANUFACTURING PLAN ENTITLED "MANUFACTURING PLAN FOR EGYT" AND DETAILING THE LAUNCH OPERATION AND INVESTMENT PLANS.

- MEMORANDUM OF UNDERSTANDING ENTITLED "DIESEL ENGINE AND TRUCK MANUFACTURING JOINT VENTURE. PROGRAM DESCRIPTION AND MEMORANDUM OF UNDERSTANDING", DATED MAY 18 (SEC), 1976 AND SIGNED BY DR. ADEL GAZARIN FOR THE GOVERNMENT OF EGYPT AND MR. E. P. WILLIAMS FOR FORD MOTOR MOTOR COMPANY.

THE APPROVAL OF THE BOARD IS HOWEVER BOUND TO THE FULFILLMENT OF THE FOLLOWING CONDITIONS:

(1) THAT THE EGYPTIAN GOVERNMENT SHALL NOT BEAR AT ANY TIME ANY BURDEN IN FOREIGN CURRENCIES DUE TO THIS PROJECT WHETHER IN FINANCING CAPITAL GOODS OR COMPONENTS AND PARTS.

(2) THAT THE CUSTOM PROTECTION IN FORM OF DUTIES DIFFERENTIAL BETWEEN CBU PRODUCTS AND IMPORTED COMPONENTS AND PARTS SHALL INCREASE GRADUALLY AS A FUNCTION OF THE LOCAL CONTENT PERCENTAGE. HOWEVER, IT SHOULD BE CLEAR THAT SUCH PROTECTION WILL NOT EXCEED AT ANY TIME THE PROTECTION OFFERED AT PRESENT OR IN THE FUTURE TO EL NASR AUTOMOTIVE MANUFACTURING COMPANY.

(3) THAT FORD WILL FORM IN EGYPT A SALES COMPANY FOR THE PURPOSE OF HANDLING SALES ON A COMMISSION BASIS FOR ALL FORD VEHICLES AND PARTS IN THE AREAS OF THE WORLD DESCRIBED ON PAGE (4) OF THE MARCH 24, 1977 LETTER.
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(4) THAT FORD PARTCIPATION IN THE PAID CAPITAL OF THE PROJECT SHALL NOT BE LESS THAN 5 MILLION DOLLARS IN ADDITION TO THE PRESENT FORD PLANT IN SAMOUHA ALEXANDRIA WHICH WILL BE EVALUATED ON BASIS TO BE APPROVED BY THE AUTHORITY.

(5) THE PROJECT SHOULD FORESEE THE GRADUAL INCREASE OF THE LOCAL CONTENT OF BOTH THE TRUCK AND DIESEL ENGINE. A MINIMUM LOCAL CONTENT OF 70 PERCENT IN VALUE OF THE COMPLETE PRODUCT SHOULD BE PLANNED AND THE NECESSARY INVESTMENTS SHOULD BE EVALUATED AND INCLUDED IN THE PROJECT, WITH A TIME SCHEDULE FOR THE PROGRESS OF THE DIFFERENT PRODUCTION STAGES.

(6) THE SALES PRICE FOR THE DIESEL ENGINES FOR THE TRUCKS IN

EGYPT SHOULD BE WITHIN COMPETITIVE INTERNATIONAL PRICES OF SIMILAR IMPORTED PRODUCTS. THE EGYPTIAN CONSUMER SHOULD BEAR NO PENALTY IN FORM OF HIGHER PRICES IMPOSED ON THE LOCALLY BUILT PRODUCTS.

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WITH THIS APPROVAL WE HOPE YOU WILL NOW PROCEED TO ESTABLISH
THE JOINT VENTURE COMPANY AND IMPLEMENT ALL NECESSARY STEPS TO
ENSURE THE SUCCESSFUL LAUNCHING OF YOUR PROJECT IN EGYPT.
END QUOTE.

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
----------271038Z 077501 /15
R 270928Z MAY 77
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 5502
INFO AMCONSUL ALEXANDRIA
AMEMBASSY DAMASCUS
AMEMBASSY JIDDA
AMEMBASSY KUWAIT

C O N F I D E N T I A L SECTION 2 OF 2 CAIRO 8912

EXDIS

2. IN SUBSEQUENT MEETING WITH ECONCOUN, OUROUSSOFF
SAID THAT FORD COULD MAKE NECESSARY ADJUSTMENTS TO
ACCOMMODATENUMBERED PARAS 1-4, SINCE FIRST THREE HAVE
ALREADY BEEN ACCEPTED AND FOURTH IS ONLY A MINOR INCREASE
IN CAPITAL INVESTMENT, BUT 5 AND 6 ARE, IN COMPANY'S
TERMINOLOGY, "WORK STOPPERS" AT THIS STAGE. INCREASED
LOCAL CONTENT (PARA 5) IS NOT SOMETHING TO WHICH COMPANY
IS OPPOSED, AND MORE IS BETTER, BUT RETRUCTURING INVESTMENT
TOINCLUDE EVENTUAL 70 PERCENT INPUT IS UNREALISTIC AND
IMPRACTICAL. EVEN WORSE, ACCORDING TO OUROUSSOFF IS
DOMESTIC SALES PRICE-REDUCTION IN PARA 6. ENTIRE PROPOSAL
IS BUILT AROUND NECESSITY OF HIGHER DOMESTIC SALES PRICE
TO COMPENSATE FOR ("SUBSIDIZE" IS AN UNFORTUNATE WORD) COSTS
OF OPERATING IN EGYPT INSTEAD OF ENGLAND, E.G. (THIS POINT
IS COVERED IN CAIRO 4468, NOTAL, WHICH REPORTS DETAILS OF
FORD PROPOSAL.)

3. ALL OF THIS IS BY THE WAY, OUROUSSOFF SAID, SINCE FORD
HAS NO INTENTION TO ACCEPT REQUESTS CONTAINED IN PARAS 5 AND
6. THEY ARE UNACCEPTABLE, BUT OF GREATER IMPORTANCE THEY ARE
EVIDENTLY NOT SERIOUS GOE CONDITIONS. AS SUGGESTED IN FAHMY'S
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CONVERSATIONS WITH AMBASSADOR (ALEX 383, NOTAL) THEY HAVE BEEN INCLUDED AT SAHIN'S INSISTENCE, BUT NAZER TOLD OUROUSSOFF THEY ARE NOT TO BE CONSIDERED AS IMPORTANT. EGYPT, ACCORDING TO NAZER, "WOULD NOT OBJECT TO A STRONG NEGATIVE ANSWER". ARMED WITH SUCH A RESPONSE, MINECON EL SAYEH WILL GO TO SUPREME INVESTMENT COUNCIL, CHAIRED BY PM, AND HAVE SHAHIN'S OBJECTIONS OVERRULED. SINCE COUNCIL MEETS JUNE 6, REPLY IS NEEDED BY THEN. NAZER ADDED THAT BOTH HE AND SAYEH ARE STRONGLY OPPOSED TO NEW REQUIREMENT POSED BY SHAHIN, BUT POINTED OUT THAT NO ONE COULD REALLY OBJECT TO THEIR INCLUSION SINCE THEY WOULD BENEFIT EGYPT IF ACCEPTED BY FORD. HE MENTIONED PARENTHETICALLY THAT IF THEY WERE TO BE ACCEPTED, SHAHIN WOULD BECOME A HERO, ALL OTHERS WOULD BECOME GOATS.

4. COMMENT. OUROUSSOF RECOGNIZES THAT IN ADDITION TO OTHER VERY VALID REASONS CITED ABOVE, FORD RISKS OPENING ENTIRE PROPOSAL TO RENEGOTIATION IF NEW REQUIREMENTS WERE TO BE AGREED UPON. WE POINTED OUT THAT SAME RATIONALE ALSO APPLIES TO REQUEST THAT PAID-IN CAPITAL BE INCREASED. IF FORD IS WILLING TO PUT IN $5 MILLION, THEN WHY NOT $10 MILLION? COMPANY IS APPARENTLY NOT OVERLY CONCERNED ON THIS POINT.

5. GAZARINE HAS REPORTEDLY RECOMMENDED THAT FORD "BE NICE" TO SHAHIN, TRYING WINE AND DINE APPROACH. IDEA BEHIND THIS IS THAT SHAHIN MAY FEEL LEFT OUT OF THINGS AND FOR THIS REASON IS PLAYING A SPOILER'S ROLE. NAZER IS TAKING A DIFFERENT APPROACH, ON HIS OWN AND SAYEH'S BEHALF, URGING THAT SHAHIN BE CUT OFF COLD, VIA A FIRM REJECTION OF HIS SUGGESTED REVISIONS, SO THAT HE CAN BE REVEALED AS AN OBSTRUCTIONIST. OUROUSSOFF THINKS THE COMPANY WILL PROBABLY WANT TO AVOID BECOMING INVOLVED IN INTERNAL SQUABBLE, LETTING GOE THRASH OUT ITS OWN PROBLEMS, AND WILL THEREFORE PREPARE A MILD BUT UNMISTAKEABLE "NO" REPLY.
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Message Attributes

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